

Canadian Energy, Canadian Benefits

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Introduction

The Canadian economy will benefit greatly from the development of our huge oil and natural gas resources in the years ahead. Continued exploration, development and production of oil and gas in western Canada, and exploration of the tremendous petroleum resources of Canada's North and offshore regions, will offer Canadians massive direct and indirect economic opportunities.

The extent of economic benefits accruing to Canadians depends on many factors. One of the most important of these is the degree to which Canadians participate in the ownership of the industry.

Canada is an energy-rich country, but in the past too many of the direct and indirect economic opportunities generated by this sector of the economy have gone to non-Canadians. In 1980, for example, over 70 per cent of oil and gas activity in Canada was foreign-owned and controlled. Approximately 72 per cent of all oil and gas production revenue went to non-Canadians. It became obvious to the Government that unless this pattern was altered, the situation would worsen as major new sources of production were brought on stream. Canadians would therefore miss out on a vast array of direct and indirect economic opportunities. Yet, Canadians would supply the vast majority of the capital needed to finance these new supplies of oil and gas — through the prices paid for petroleum products, through tax concessions and a variety of other means.

These new sources of oil will be costly to produce, requiring the Government to set a higher price for their production. There would have been little justification for these higher prices if the Government had allowed the bulk of the revenue generated from them to accrue to investors outside the country. At the same time, it was clear that Canadians were in danger of missing out on an increasing share of the economic decision-making vital to economic planning in this country.

It became equally clear to the Government that an effort to increase Canadian participation in the oil and gas industry would be a wise, long-term investment in this country's economic future. It would contribute to more

vigorous and effective development of the country's oil and gas resources, and it would enable Canadians to play a greater role in the indirect economic opportunities created by this development.



Seismic survey on land to locate petroleum resources

The National Energy Program

On October 28, 1980, the Government of Canada introduced a comprehensive set of national energy policies and programs aimed at addressing these and other energy concerns. The National Energy Program, as it was named, set three major goals for Canada in this decade:

- Oil self-sufficiency by the end of the decade;
- A fair sharing of petroleum revenue among governments and the oil and gas industry;
- An expanded role for Canadians in development of their petroleum resources.

The third goal itself has three major objectives: expanding the degree of Canadian ownership and control in the oil and gas industry; increasing the number of larger companies that are Canadian-controlled; and increasing the share of the industry owned by the Government of Canada, thereby enabling it to act more vigorously and effectively on behalf of all Canadians.

The National Energy Program spawned specific legislative measures and programs designed to carry out the three goals of the program itself, particularly those relating to increased opportunities for Canadians.

The Canada Oil and Gas Act, approved by Parliament in December 1981 (and proclaimed on March 5, 1982), created a regime for oil and gas exploration and development in the frontier regions of Canada — the North and offshore regions. The Act's emphasis is on the expansion of opportunities for Canadians and the effective management of petroleum development — with due regard for protection of the environment and the interests of people directly affected.

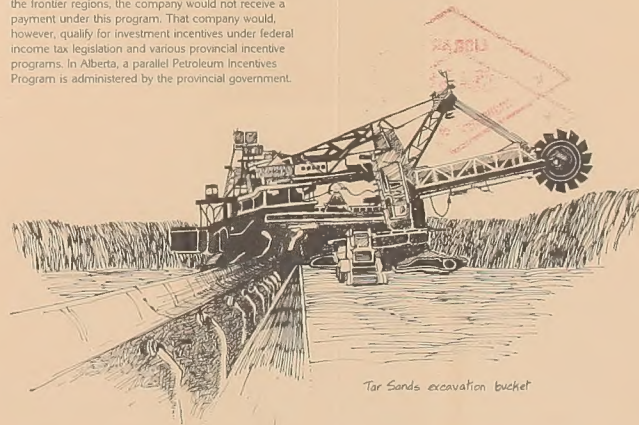
A major provision of the Act requires that companies, before receiving approval to explore anywhere in the frontier regions, must submit an acceptable plan to the Minister of Energy, Mines and Resources or the Minister of Indian Affairs and Northern Development. The plan must outline employment opportunities it will offer Canadians — in particular any affirmative action employment programs for disadvantaged groups. These submissions include proposals for giving Canadian manufacturers, consultants, contractors and service companies a "full and fair opportunity" to compete for the supply of goods and services to the project.

The Act also requires that projects have a minimum of 50 per cent Canadian ownership before commencing production at oil or natural gas wells in the frontier regions. It provides the Government of Canada with an opportunity to claim a 25 per cent interest in any petroleum right in lands directly administered by the Government of Canada. This is in recognition that the Government will pay its full share of development costs and will provide companies with 25 per cent of their eligible exploration costs in the frontier regions.

Another major initiative of the National Energy Program is the Petroleum Incentives Program, which provides incentive payments to petroleum companies for oil and gas exploration and development. These incentives are based largely, although not wholly, on the extent of the companies' Canadian ownership; on whether they are Canadian-controlled; and on where the exploration activity takes place.

For instance, a company that is at least 71 per cent Canadian-owned in 1983, and Canadian-controlled, would receive grants covering 80 per cent of its exploration costs in the frontier regions. The payment would be 35 per cent of costs if the exploration took place outside the frontier regions.

By contrast, a company that has less than 50 per cent Canadian ownership, or is controlled by non-Canadians, will receive a payment equalling 25 per cent of its eligible 1983 exploration costs if exploration took place in the frontier regions. If the exploration occurred outside the frontier regions, the company would not receive a payment under this program. That company would, however, qualify for investment incentives under federal income tax legislation and various provincial incentive programs. In Alberta, a parallel Petroleum Incentives Program is administered by the provincial government.



Tar Sands excavation bucket

These and other energy initiatives are occurring in the context of a broader Government effort to identify emerging industrial opportunities and to assist Canadians to take greater advantage of them.

In a document called *Economic Development in Canada in the 1980s*, made public in November 1981, the Government stated that economic development in this decade will be dominated by continued production and expansion of resource-based industries and by revitalization of industrial capacity to better enable Canada to compete in international trade. To this end, early in 1982 the Government announced a major re-organization of departments concerned with economic policy to better provide policies to encourage this development and to provide Canadians in all regions with enhanced economic and employment opportunities.

Opportunities Aboard

Already there is evidence that these and other public initiatives are beginning to pay off. One year after the National Energy Program was introduced, Canadian ownership in the oil and gas industry had increased by six per cent. Moreover, Canadians are beginning to discover a variety of ways to participate directly and indirectly in the industry through drilling funds, pension plans and other investment vehicles.

A major initiative is an agreement between the Government of Canada and a group of co-operative organizations from coast to coast. They have agreed to contribute up to \$100 million each over the next five years to create a vigorous new energy enterprise. Members of participating co-operatives will be direct shareholders in a new company called the Co-operative Energy Corporation, or Co-Enerco. This is a holding company that will, in turn, invest its capital in two new companies to be created: the Co-operative Exploration and Development Corporation, which will be active in oil and gas exploration and development, and the Co-operative Energy Investment Fund, a trust fund. The venture will provide both co-operative members and the general public with an opportunity to directly participate in oil and gas investment and development. It will also provide a significant new pool of capital for the petroleum industry.

Regional economic opportunities are beginning to emerge that are, in effect, an advance guard for a broader economic revitalization that will occur in the several regions over the next two decades.

Offshore energy exploration has spawned a variety of opportunities for existing east coast companies. Saint John Shipbuilding and Dry Dock Co. Ltd. won the contract to build a \$75 million semi-submersible drill rig,

Bow Drill II, ordered by Bow Valley Industries Ltd. and Husky Oil Ltd. for delivery in the late fall of 1982. This same New Brunswick shipyard also built the innovative Class 3 icebreaker *Kigoriak* for Dome Petroleum in 1980.

Smaller orders finding their way into Canadian shipyards can combine to make impressive totals. Newfoundland's Marystown Shipyard has built ten offshore supply/support boats. A series of four "Balder" boats, built by Marystown for Norwegian operator Parley Augustsson, cost approximately \$13 million each.

West coast shipyards are also benefitting from offshore development. In British Columbia, Burrard Yards is building a \$29 million Class 3 icebreaker for Dome Petroleum to join the *Kigoriak* in supporting its Beaufort Sea drilling operations.

Dome has also purchased the Davie Shipyard in Lauzon, Quebec and plans to expand it to accommodate the construction of large vessels, equipment modules and other large floating exploration and development support facilities that will be required for its frontier operations.

Estimates for expenditures on shipyard orders relating to energy exploration in Canada range as high as \$20 billion over the coming decade.

The economic spin-offs from energy exploration have spread across Canada. Along with large-scale contracts, thousands of smaller orders are providing opportunities for even the smallest of companies. In the Province of Quebec, for example, Panarctic Oils in 1981 spent \$1.5 million purchasing a variety of goods and services from Montreal-based companies or from companies that sourced their requirements in Quebec. Between January 1980 and June 1981, Mobil Oil purchased just under \$800,000 of goods and services from Quebec companies.

Exploration expenditures are not just for drilling rigs and other technical equipment: the administrative support for exploration requires office equipment and supplies and other services that are common to most firms. The opportunities created by energy exploration are not limited to those directly involved in the oil and gas industry — firms large and small in an enormous range of businesses can benefit from the development of Canadian frontier energy resources.

Petro-Canada has been a leader in increasing the Canadian presence in the oil and gas industry. Since 1976, the national oil company has been a driving force behind 76 of the 128 wells that have been drilled in the frontier regions. It was the first large Canadian landholder in the eastern offshore and the first Canadian operator there. It also has been a participant in every major oil or gas field off Canada's east coast.

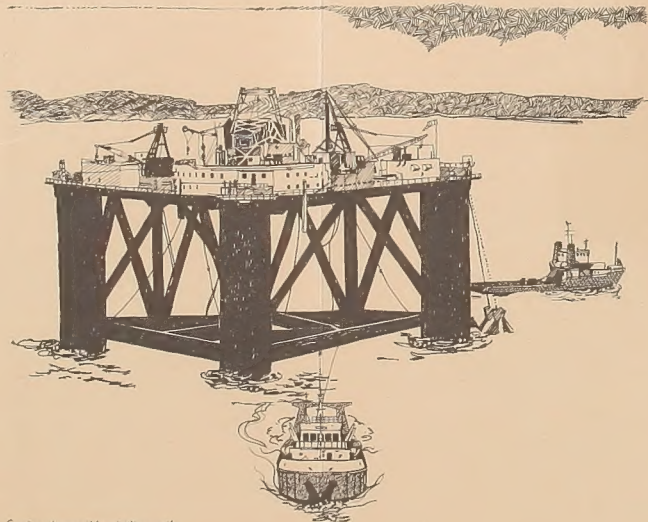
Petro-Canada has been particularly active in encouraging other Canadian companies to become involved in eastern offshore drilling. It heads up the Labrador Group, a long-term effort involving many companies and aimed at mounting a comprehensive exploration program in the Labrador offshore for oil and gas. In 1980, Petro-Canada Corporation assigned a share of its participation in Davis Strait exploration to two Canadian companies, Home Oil Company Limited and PanCanadian Petroleum Limited, as part of a broader program to help Canadian companies become involved in frontier exploration.

Petro-Canada is also active in the Scotian Shelf. In partnership with Bow Valley Industries Ltd. and Husky Oil Operations Ltd. (two other Canadian companies), it has embarked on a \$500 million program to drill up to eight exploratory wells approximately 30 kilometres north of Sable Island. A plan submitted by these companies ensures a high level of Canadian participation in their operations. For example, it is estimated that 93 of the 104 drilling rig jobs created by this exploration program will be filled by Canadians in 1983.

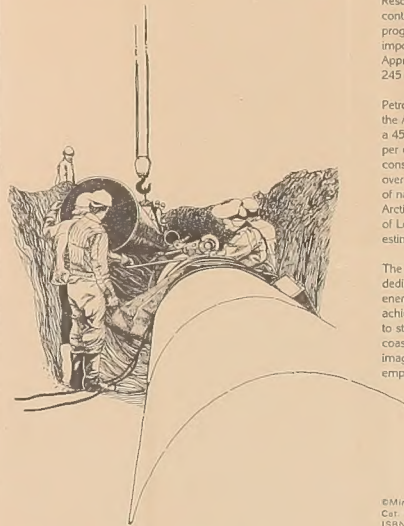
Another group of companies — Shell Canada Resources, Canterra Energy Ltd. and Norcen Energy Resources Ltd. (the latter two Canadian owned and controlled) — is carrying out a \$263 million exploration program on the Scotian Shelf which will provide important economic spin-offs for Canadians. Approximately 254 jobs will be available by 1984, about 245 of them going to Canadians.

Petro-Canada has been heavily involved in exploration in the Arctic Islands through Panarctic Oils, in which it has a 45 per cent interest. Panarctic, which is more than 80 per cent Canadian-owned, is the operator for a consortium of companies that has spent \$600 million over the past 10 years, resulting in significant discoveries of natural gas and promising indications of oil in the Arctic Islands. One well, Whitefish, which is located west of Loughheed Island, has indicated the presence of an estimated 64.5 billion cubic metres of natural gas.

The Government of Canada's energy policies are dedicated to the wise management of this nation's vast energy resources. Wise management will help Canada achieve energy security for decades to come and will act to stimulate the economy, creating opportunities from coast to coast. Already, Canadians are responding imaginatively to take advantage of emerging employment and investment opportunities.



Semi-submersible drilling unit



Welding joints on pipeline construction